

August 31, 2022

Kathleen L. Casey
Chair
Financial Accounting Foundation Board of Trustees
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Chair Casey and Members of the Board:

CFA Institute¹, in consultation with its Corporate Disclosure Policy Council (“CDPC”)², appreciates the opportunity to comment and provide our perspectives on the [Strategic Plan Draft for Public Comment](#) (Strategic Plan) of the Financial Accounting Foundation (FAF).

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. We are providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

[Our Previous Commentary on the Need for A Strategic Review](#)

We appreciate the opportunity to comment on the strategic plan and commend the FAF for requesting the public to participate in providing feedback on the draft strategy. We copied the FAF on our [comment letter to the Financial Accounting Standards Board \(FASB\) on its 2021 Agenda Consultation](#). In that comment letter, we noted the need for the FASB’s agenda-setting to be preceded by a strategic review by the FAF as we believed broader, more strategic issues

¹ With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Shanghai; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on [LinkedIn](#) and Twitter at [@CFAInstitute](#).

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

needed to be considered before the FASB began its work plan for the next three to five years. In that letter, we noted the following as it relates to the FAF and the need for a strategic review:

A Strategic Review: Precursor to Agenda Setting

The Financial Accounting Foundation (FAF) and FASB have unique authority in the U.S. for the determination of accounting standards under the federal securities laws. Since 1972, the FASB, overseen by the private-sector FAF³, and by the U.S. Securities and Exchange Commission (SEC or Commission)⁴, has promulgated generally accepted accounting principles for both public and private companies in the United States. The Commission's rules state that financial statements not prepared in accordance with FASB's standards will be presumed to be inaccurate or misleading.⁵ The importance of the FAF and FASB in establishing and maintaining high-quality financial reporting standards cannot be understated. High-quality financial reports, which are facilitated by high quality standards, are the bedrock of the U.S. capital markets. The collective mission of the FAF and FASB is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.⁶

*The FAF and FASB last undertook a comprehensive strategic review six years ago, which culminated in the issuance of its [Strategic Plan](#) in April 2015. We suggest that now is an appropriate time to reflect upon the past and provide for a plan for the next 5 years (2021-2026). While it appears that the FAF began a review in Fall 2020, with a survey and outreach on its strategy, this effort appears to have been paused. **The challenge for the FASB, and its stakeholders, is that an agenda consultation by FASB either front-runs, or is simultaneous with, this effort. Consequently, there may be an overemphasis on the agenda consultation process which is highly tactical when there should be an overarching strategy and vision which should take primacy.***

In our view, undertaking a consultation on the standard-setting agenda at FASB without a strategic plan to set overall goals and a plan to achieve them by the FAF will not allow the FASB to revise its standard-setting and project agendas to reflect a global leadership position with regard to the priorities and interests of investors in furthering the quality of corporate reporting.

*We believe the FAF strategy review should precede an agenda consultation by the FASB and that it should seek public comment on a strategic plan for 2021 and beyond. **Undertaking an agenda consultation without first setting forward a vision and strategy for the future has the effect of the agenda being set without the benefit of a strategic view of the future. In the parlance of a business, the FASB is building products that may not reflect the needs of customers in the future.***

³ The FAF is responsible for oversight and administration of the FASB, including the selection and appointment of FASB board members and the determination of FASB's budget.

⁴ Former [SEC Chair David Ruder described the Commission's oversight](#): "The SEC's oversight [of FASB] is extensive and covers all aspects of the FASB's activities. The Commission staff discusses issues with the FASB staff on a daily basis and the two staffs meet regularly to discuss the FASB's agenda, current problems, and matters of mutual interest." See also §108 of the Sarbanes-Oxley Act, which mandates that the Commission determine that FASB's financial accounting and reporting standards are recognized as "generally accepted" for purposes of the federal securities laws. As a result, registrants are required to continue to comply with those standards in preparing financial statements filed with the Commission, unless the Commission directs otherwise. Subsection 19 of Section 13 (b) of the Exchange Act provides, among other things, the need to keep accounting standards current in order to reflect changes in the business environment, the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors.

⁵ See §17 C.F.R. §210.-01(a)(1).

⁶ See "About the FASB" (available at www.fasb.org)

We believe that a strategic review should consider, at a minimum, the following questions:

- *How does the FASB's development of standards incorporate the impact **technology** has, and will have, on the preparation, audit of financial information, and use of information?*
- *Does an **accounting model** built for a manufacturing economy in the last two centuries remain fit-for-purpose in today's digital economy?*
- *How does FASB's simplification projects and view that **investors are overloaded with information** align with investors request for additional information and their sourcing of more useful forward-looking information from a new information ecosystem?*
- *Is the call for **ESG information an indicator of an outdated accounting model** that fails to account for emerging risks and valuation considerations for investors?*
- *Does the lack of accounting standards addressing the **significance of intangibles** to the valuation of US public companies continue to contribute to decision-useful information for investors?*
- *What processes does the FASB have to **examine the nature, timing, and extent of information used for investment decisions**?*

*A strategic review should also **evaluate the advisory committees**, with particular focus on how to obtain the perspectives of investors to incorporate into the standard setting process. In our opinion, the FASB should re-establish the Investors Technical Advisory Committee (ITAC), which the FASB had formed "to provide investor perspectives on current projects and on the implementation of new standards." We believe that the ITAC should operate in substance, and form, similar to the FASB's Private Company Council (PCC).*

As we note in that previous letter, we believe several strategic trends need to be considered before the FASB does agenda-setting as these strategic imperatives drive the work of the FASB, and the oversight the FAF must provide to the FASB. We see that Goals #2, #3 and #6 within the Strategic Plan address topics such as the evolution of financial accounting and reporting standards, technology, and sustainability reporting such as we note in our previous letter in the excerpt above. We also note that Goal #5 addresses exhibiting global leadership. As such, several of the topics we highlighted are broadly included in the goals in the Strategic Plan. However, topics such as the efficacy of the existing accounting model, the narrative on disclosure overload and its impact on standard-setting and the need to examine the nature, timing, and extent of information used for investment decisions are not included within the strategic goals. We believe these are very important to consider as they get to the relevance of the FASB's work.

A Focus on Investors: A Strategic Scorecard on Investor Focused Improvements

Many investors have expressed to the FAF that they believe that the mission and agenda of the FASB has drifted over the last decade, away from addressing the needs of investors and other users of financial statements. Those investors have noted that the FASB's priorities have focused on simplification of accounting standards and practices, without sufficient attention given to the needs of users, particularly in agenda-setting. We view the Strategic Plan process as an opportunity for the FAF to remedy this situation and the perception.

While we applaud the FAF for its intention to increase greater diversity, equity, and inclusion as stated in Goal #4, we believe the concept of "inclusion" needs to be extended to investors and their informational needs. We believe the concept of inclusion should incorporate the need for a diversity of perspectives and the best ideas of all constituents, particularly the users of the information produced from the FASB standards (i.e., investors). We hope this concept of

inclusion will permeate the culture of the FAF, the FASB and the GASB as we believe this is consistent with the FAF's value of Inclusiveness as articulated in the Strategic Plan.

Investors need to know that their views have not just been heard but listened to and incorporated into the standard-setting process, from agenda-setting to standard-setting.

We noted in [our comment letter to the FASB on its 2021 Agenda Consultation](#) the following:

The FASB's Recent Priorities & Focus: An Investor Focused Agenda for the Future?

As we complete this response, we consider the FASB's previous consultations, the lack of a strategic review, its recent activities, and the recent ITC. In light of this, we find ourselves asking whether the FASB will focus its future agenda on the priorities of investors.

A review of the FASB website notes that of the 30 "[recently completed projects](#)" (March 2019 – July 2021) affecting public companies, sixteen (53%) concerned "improvements," "clarifications," or "simplifications" of existing standards; six (20%) concerned deferrals of previously issued standards, and eight projects (27%) were removed without FASB action. The recently completed projects do not reflect investor priorities. A majority related to "simplification" and the remaining concerned deferrals or no significant Board action.

Further, public reports and letters⁷ suggest, in the view of many investors, that the FASB has not emphasized the importance of developing and implementing accounting standards that meet the needs and expectations of investors in an environment of unprecedented change. Many investors believe the last decade (two agenda consultation periods) have not placed investor priorities at the top of the agenda.⁸

This perception of weaknesses in standard setting, whether actual or merely perceived, have become increasingly pronounced over the last five years as a "simplification" theme has become paramount to the needs of investors. The lack of a strategic plan, as noted above, and the failure to incorporate the issues of central importance to investors has resulted in the FASB addressing less important legacy brick-and-mortar standards ("simplification") rather than a visionary reimagining of accounting standards fit-for-purpose in the global, services based, digital economy. Many, including us, are concerned that financial reporting lacks relevancy with outdated legacy standards that were mainly developed for an economy dominated by manufacturing.

As we highlight in other areas of our letter, we urge the FASB to adopt an investor-centric methodology that incorporates the priorities of investors into a standard-setting agenda. Our top three priorities remain unchanged from our [2016 letter](#): (Enhancing the Presentation of the Primary Financial Statements, Improving Segment Reporting, Improving Intangible Asset Reporting). We also believe the FASB must consider the costs to investors when not advancing or adopting standards, evaluate the qualitative and quantitative benefits to investors when conducting a cost-benefit analysis, and prioritize investor views above other stakeholders when evaluating tradeoffs and public comment.⁹

⁷ Letter from Alliance of [Concerned Investors](#) to SEC Chair Gary Gensler (June 7, 2021) and [Letter](#) to SEC Chair Jay Clayton (Oct 2020)

⁸ See [Final Report of the Advisory Committee on Improvements to Financial Reporting to the US Securities and Exchange Commission \(2008\)](#) noting that "investor perspectives should be given preeminence by all parties involved in standards-setting." (page 10)

⁹ See Remarks from SEC Commissioner Kathleen L Casey, "Lessons from the Financial Crisis for Financial Reporting, Standard Setting and Rule Making" (Nov 2009), noting, "[A]ccounting standard setters should strive to promote transparency for investors above all. While the interests and preferences of other stakeholders are clearly important considerations in the standard setting process, where those interests conflict with the needs of investors, investors' interests must prevail.

Other investors, see references in the excerpt above, have highlighted to the FAF and FASB that the list of investor-focused projects and improvements over the last decade is sparse. Projects such as leases have seen the recognition of such liabilities on the balance sheet, which is something we have advocated for over 40 years. There are a limited number of other projects the FAF and FASB can point to that have addressed investors stated priorities such as improved financial statement presentation (e.g., improved cash flows and better income statement disaggregation), enhanced segment reporting and the recognition of intangible assets to name a few. And, such needed improvements don't consider the strategic priorities of technology, the modern-day efficacy of the accounting model, the narrative of disclosure overload, the introduction of ESG reporting into the mainstream, and the nature, timing and extent of financial information used for investment decisions.

What investors need from this Strategic Plan is a vision or commitment from the FAF that at the end of this five year period that they will provide an assessment or scorecard on how the FAF has governed FASB in a way that there is a list of improvements that they can point to as demonstration of improvements for the benefit of investors. With the passage of the Sarbanes-Oxley Act of 2002 ("SOX"), the FASB has secure funding that should enable them to act independently in pursuit of improved financial reporting for investors.

Measures of Progress Toward Vision and Strategic Goals

We support the FAF in its pursuit of the six goals outlined in the Strategic Plan. We would like for the FAF, however, to outline what the proposed future state, or outline the vision, of what the FAF and FASB will look like in five years. Many of these goals are activities, but the question we ponder is: At the end of the plan period, what will the FAF and FASB look like and how will they be different?

Further, as it relates to the goals, the Strategic Plan does not set forth how the FAF will measure progress toward the attainment of the goals or its defined future state (i.e., vision). We believe that the FAF is accountable to its constituencies for the completion of its mission, and the setting of goals to accomplish that mission is of paramount importance – but without measurement towards the successful achievement of those goals, accountability cannot be achieved. Said differently, five years from now, how will the FAF conclude that their goals have been reached – or have failed to be achieved – if there are no targets set?

We also believe it is important to provide annual updates on progress towards these goals.

We believe such measurement is consistent with the FAF's values of Independence and Accountability as articulated in the Strategic Plan.

See also See [Final Report of the Advisory Committee on Improvements to Financial Reporting to the US Securities and Exchange Commission \(2008\)](#) noting that "investor perspectives should be given preeminence by all parties involved in standards-setting." (page 10)

Consideration of the FAF's Six Strategic Goals

As we consider the six specific goals set forth in the draft Strategic Plan, we note the following.

Goal #1: In service to the public interest, promote the importance of independent standard setting to capital markets

Not only do we agree with the positioning of this goal as #1, but we also believe this is the most important attribute of the FAF. Investors need neutral, timely and accurate financial information for making investment decisions. If the organizations responsible for financial accounting standards are not independent, the financial accounting standards they produce may be tainted with bias – or if not biased, they might be suspect. As we note above, the FASB's funding has been secured by assessment of public companies under SOX. While some see this as public companies (preparers) footing the bill for standard-setting, this is actually investors (the residual equity owners) footing the bill for funding. That said, investors (including academics) are structured to only hold a minority of board seats. We believe that for standard-setting to be independent that there need to be at least an additional investor seat on the FASB. Those for whom the product is being created should not hold a minority vote.

We also believe the FAF should consider how topics are added to the FASB agenda to ensure that they meet the agenda-setting criteria. We addressed this issue in our recent paper on goodwill, [*Goodwill: Investor Perspectives*](#).

See also our comments under *Other Considerations* related to the Inflation Reduction Act and the use of US GAAP for computation of a global minimum tax. We are worried this may impair the independence of standard-setting for the benefit of capital market participants.

Goal #2: Ensure financial accounting and reporting standards evolve

Over the last twenty years, we have noted a marked increase in the prevalence of non-GAAP reporting. This can be attributable to many factors. A few examples may be the increased management of investor expectations by companies; the elevated level of US merger and acquisition activity, which creates difficulties in comparing firms' results; and the consistently high frequency of impairment charges. Regarding the FAF, however, we believe that the FASB has not been responsive enough to the needs of investors, and this has contributed to the "do-it-yourself" reporting observed over the last decade. We agree that the FAF must "ensure financial accounting and reporting standards evolve" – but we believe that it must evolve much faster.

Evolution needs to be faster in that the standard-setting due process of the FASB is far too slow and emerging topics – for example, cryptocurrency, the subject of the vast majority of comment letters to the recent agenda consultation – must be a top priority. The FASB needs to be seen as more current and active in providing guidance on such issues. We believe the due process timeline needs to be reviewed regularly to evaluate how the timing and process can be improved.

We also believe the FAF must ensure that the FASB addresses emerging strategic priorities such as those we highlighted in our comment letter to the 2021 agenda consultation including technology, the modern-day efficacy of the accounting model, the narrative of disclosure overload, the introduction of ESG reporting into the mainstream, the significance of intangibles, and the nature, timing and extent of financial information used for investment decisions. We note

Goal #3 (new technologies) and #6 (sustainability) touch upon two of these priorities. That said, we need the FAF and FASB to define for stakeholders their future state technology integration approach as well as where they envision themselves in the sustainability ecosystem. Said differently, not only does the FAF need to say they are going to engage in activities around these topics, but they need to define where they see themselves on the topics at the end of the five year time frame of the Strategic Plan.

Goal #3: Incorporate new technologies to make the standard-setting process more effective and productive, from initial stakeholder input through the delivery and consumption of standards

We support this goal fully. The FAF must keep in tune with the times, technologically speaking, and so must FASB and GASB, or risk falling behind the rest of the reporting world – and losing its relevance. As we consider the objectives herein, we are curious for more detailed steps on how they will meet these objectives. For example:

- What will be the base level assumption regarding the nature of underlying technology when establishing an accounting standard?
- How will preparers statement regarding the lack of technology be validated?
- Will a technology advisory group be established?

Goal #4: Build on our commitment to greater diversity, equity, and inclusion

As mentioned in our earlier remarks, we support the FAF and its commitment to greater diversity, equity, and inclusion. We emphasize, however, that the concept of “inclusion” needs to be extended to including investors and their informational needs, rather than being limited to immutable qualities. We believe diversity of thought and opinions is what is needed to make the FASB more vibrant, agile, and forward-looking. This concept of inclusion of investors needs to permeate the future culture of the FAF, the FASB and the GASB.

Goal #5: Exhibit leadership in global financial reporting

Again, we support the FAF’s goal in this regard. While we deeply support the mission of the International Financial Reporting Standards Foundation (IFRSF) and the International Accounting Standards Board (IASB), we view the work of the FAF and the FASB as critical for US investors and markets. The work of the two standard-setting regimes should be complementary to each other, and not a replacement for one or the other.

Investors want greater comparability globally and efforts such as the goodwill project highlight the challenges with that key investor objective. We are pleased to see the FASB abandoned this project, but this was – in our view – time that could have been spent more productively addressing future oriented strategic priorities.

We urge the FAF to continue to strive for leadership in global financial reporting, while maintaining robust communication with the IFRSF. Likewise, we urge the FASB to maintain the same kind of relationship with the IASB.

We would also note that being a leader in global financial reporting means that the FASB needs to outreach to investors outside the United States as the use of US GAAP is not limited to investors physically located in the US, rather US GAAP is used by global investors who own

interests in companies domiciled in the US and they can be a valuable resource on how the FASB can maintain a leadership position.

Goal #6: Engage with stakeholders, regulators, and Congress to determine the appropriate way, if any, for the organization to contribute to future sustainability reporting

We concur that the FAF should engage with all its relevant constituents and authorities to explore ways for the FAF to engage in future sustainability reporting. We note that this is an extremely fluid area of the corporate reporting world, and for the time being, the first steps in the United States have been taken by the Securities & Exchange Commission with its climate-related disclosures proposal, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*.

Having spent the better part of the last six months [responding to the aforementioned SEC consultation](#) as well as providing commentary on the consultations issued by the International Sustainability Standards Board (Draft IFRS S1 ([comment letter on General Standard](#)) and Draft IFRS S2 ([comment letter on Climate Standard](#))) as well as [providing overview thoughts](#) on the European Sustainability Reporting Standards (ESRS) being developed by EFRAG, we have made several important observations that are relevant to accounting standard setters. They are as follows:

- For these disclosures to be meaningful they must be connected to the financial statements. The financial statements must provide confirmatory power to these qualitative, long-term disclosures.
- There is significant work to be done to connect these sustainability risks to the financial statements. For example, many of the definitions and terms used in the sustainability lexicon (e.g., climate terminology) do not even exist within the US GAAP (or IFRS) lexicon. There can be no link to financial statements without consistent terminology.
- Materiality definitions may not be consistent between disclosures inside and outside of financial statements.
- Investors must remain the priority of the FASB and IASB.
- The FAF and FASB, as well as the IFRS Foundation and IASB, must not let improvements in financial reporting be back-seated to sustainability reporting due to time and resource constraints of preparers.
- There is much greater coordination needed than originally anticipated. See our various comment letters above. The FAF and FASB need to be reading and considering these consultation responses closely though they are not, at present, directly involved.

Other Considerations

Global Minimum Tax – With the passage of the Inflation Reduction Act and the use of US GAAP for computation of a global minimum tax, we are concerned that the FASB may become subject to greater political pressures and that investors will no longer be the primary users of US GAAP – rather they will be used for, and influenced to meet, tax objectives. We have long opposed the use of US GAAP for prudential regulatory purposes, this is an even more concerning use of US GAAP. We understand there may be adjustments to US GAAP which mitigate this pressure, but this is something that needs to be monitored carefully. Our concern is that there will be a whole host of new non-GAAP measures that arise reducing the quality of US

GAAP. We believe the FAF has a responsibility in overseeing the FASB to ensure the political independence of the FASB.

Private Company Standard-Setting – We have opposed since its inception (e.g., [2012 comment letter](#) and [2015 comment letter](#)) the formation of the Private Company Council (PCC). Our opposition was, in part, due to our concern that:

- Preparers would have a primacy in standard-setting, without significant oversight, that investors don't have given the structure and reporting of the PCC and the fact no similar counterweight council exists for investors;
- Its establishment was based upon the flawed premise that private company investors have greater access to management than public company investors; and
- It would result in backdoor agenda and standard-setting for public companies.

We still hold all of these views and we have seen evidence of backdoor agenda and standard-setting for public companies (e.g., goodwill). Further, private markets are much different, and much larger, than they were a decade ago when the PCC was established.

It has been our long-held view that the information needs of investors are not different based upon their public or private company status. All that is occurring with the creation of private company US GAAP is that the reduced cost of producing more meaningful financial statements is transferring to an increase in the cost of capital charged by investors – a very real cost that is never considered in the standard-setting cost-benefit analysis.

We believe the FAF needs to perform a bottoms-up, fundamental review of the PCC given the changes in private markets and the emergence of concerns investors highlighted a decade ago when it was established. The last assessment of the PCC was done in 2015.

Advisory Committees – We believe along with the review of the PCC, the FAF should review the FASB advisory committees and consider the quality and stature of the investor advisory group. It is not only overdue for a review of the PCC, but it is also overdue to consider the formation of a counterpart council for investors, under the mantle of a re-established Investors Technical Advisory Committee. We also note that there has never been a technology advisory body and we urge the FAF to consider adding one.



Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at [REDACTED] or at [REDACTED].

Sincerely,

/s/ Sandra J. Peters

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